

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

**REPORT OF EXAMINATION
OF**

**ADRIATIC INSURANCE COMPANY
METAIRIE, LOUISIANA**

**AS OF
DECEMBER 31, 2001**

STATE OF NORTH DAKOTA
DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that
I have compared the annexed copy of the Report of Examination of the

Adriatic Insurance Company

Metairie, Louisiana

as of December 31, 2001, with the original on file in this Department and that the same is a
correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto
set my hand and affixed my official seal at my
office in the City of Bismarck, this _____ day of
_____, 2003.

Jim Poolman
Commissioner of Insurance

TABLE OF CONTENTS

SCOPE OF EXAMINATION.....	1
HISTORY.....	2
General.....	2
Capital Stock	3
Dividends to Stockholders.....	3
Management.....	3
Board of Directors.....	3
Officers.....	3
Conflict of Interest.....	4
Corporate Records.....	4
AFFILIATED COMPANIES	4
FIDELITY BOND AND OTHER INSURANCE.....	5
PENSION, STOCK OWNERSHIP, AND OTHER INSURANCE PLANS.....	5
STATUTORY DEPOSITS.....	5
GROWTH OF THE COMPANY	5
TERRITORY AND PLAN OF OPERATION.....	6
REINSURANCE	6
Ceded Reinsurance	6
ACCOUNTS AND RECORDS	8
FINANCIAL STATEMENTS.....	8
NOTES TO FINANCIAL STATEMENTS	14
Cash.....	14
Short-Term Investments	14
Agents' Balances	14
Reinsurance Recoverable on Paid Losses	14
Federal Income Taxes Recoverable.....	15
Losses and Loss Adjustment Expenses	15
Taxes, Licenses and Fees Payable.....	15
Unearned Premiums	15
CONCLUSION	16
COMMENTS AND RECOMMENDATIONS	17

Metairie, Louisiana
August 4, 2003

Honorable Alfred W. Gross
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Honorable Jim Poolman
Chair, Midwestern Zone
Commissioner of Insurance
North Dakota Department of Insurance
600 East Boulevard
Bismarck, ND 58505-0320

Dear Commissioners:

Pursuant to your instructions and statutory requirements, a financial examination has been made of the books, records and financial condition of

**Adriatic Insurance Company
Metairie, Louisiana**

as of December 31, 2001.

Adriatic Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 1996, by the North Dakota Insurance Department.

The present examination was conducted at the Company's home office in Metairie, Louisiana, by Examiners from the North Dakota Insurance Department representing the Midwestern Zone.

SCOPE OF EXAMINATION

This examination was a financial condition examination conducted in accordance with N.D. Cent. Code § 26.1-03-19.3 and observed guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review the corporate affairs and

insurance operations. This statutory examination covers the period from January 1, 1997, through December 31, 2001, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

Work papers provided by the Company's independent auditor were reviewed and where deemed appropriate certain procedures and conclusions documented in those work papers have been relied upon and copied for inclusion into the working papers for this examination.

All recommendations made in the prior report of statutory examination have been adequately addressed by the Company with the following exceptions:

<u>Recommendation</u>	<u>Action by the Company</u>
It is recommended that the Company develop and maintain sufficient documentation, including program file definitions, flow charts, and narratives for each financially significant computer application and program.	The Company did not document financially significant computer applications and programs.
It is recommended that the Company complete its statutory annual statement in accordance with <i>Annual Statement Instructions</i> .	The 2001 Annual Statement was not consistently completed in accordance with <i>Annual Statement Instructions</i> , the notable exception being the Notes to Financial Statements.
It is recommended that the Company enter into a written tax allocation agreement with its parent company describing the tax allocation method between the two companies and providing for settlement of intercompany balances.	The Company did not enter into a written agreement describing a method of allocation of the federal income tax recoverable or payable resulting from the consolidated return.
It is recommended that the Company classify investments in money market mutual funds in conformity with the <i>Annual Statement Instructions</i> and the <i>Purposes and Procedures Manual of the SVO</i> in the future.	The Company did not always classify money market mutual funds in accordance with NAIC guidelines.

HISTORY

General

The Company was incorporated on July 16, 1992, in accordance with the North Dakota Business Corporation Act, N.D. Cent. Code Chapter 10-19.1, and the state insurance statutes, N.D. Cent. Code Chapter 26.1-05. Effective October 1, 1992, the Company was the surviving entity in a merger with Adriatic Insurance Company, a Delaware corporation that was originally organized on June 12, 1979, under the laws of the State of Delaware.

The Company's primary purpose is to engage in the business of property and casualty insurance. The Company is authorized to operate on the stock plan and is a wholly owned subsidiary of the Anglesey Corporation, a Delaware insurance holding company.

Capital Stock

The Company's Articles of Incorporation authorize the Company to issue 1,500,000 shares of single class (common), no par value capital stock.

At December 31, 2001, the Company had issued all 1,500,000 shares to its parent, Anglesey Corporation. The ownership of Anglesey Corporation is primarily held by the ultimate controlling person, Anthony Ciervo, Jr., who controlled 53.39% of Anglesey's Class A, no par common stock at December 31, 2001.

On April 27, 1994, the Company's stockholder voted to change the par value of common stock from \$1 par value per share to no par. The amendment to the Articles was filed with and approved by the North Dakota Insurance Department effective August 17, 1994.

The stockholder also approved a transfer of \$2,000,000 of unassigned surplus funds to capital stock on April 27, 1994.

Dividends to Stockholders

There were no dividends declared or paid in 1997, 1998, 1999, 2000, and 2001.

Management

The Bylaws provide that an annual meeting of the stockholders shall be held on the fourth Wednesday of April of each year, beginning with the year 1993 at the hour of 2:00 p.m.

The Bylaws also provide that the number of directors of the corporation shall be three and each director holds office until the next annual meeting of stockholders and until his successor has been elected and qualified. Regular meetings of the Board of Directors are held after the annual stockholder meeting.

Board of Directors

Directors serving as of December 31, 2001, were as follows:

<u>Name and Address</u>	<u>Principal Occupation</u>
Joseph Edmond Taylor Metairie, Louisiana	President Adriatic Insurance Company
Anthony Vandegrift Ciervo New Orleans, Louisiana	Secretary Adriatic Insurance Company
Steven Michael Harris Mandeville, Louisiana	Treasurer Adriatic Insurance Company

Officers

The Bylaws provide that the officers of the corporation shall be a President, a Vice President, a Secretary, and a Treasurer. The Board of Directors may also appoint other or additional officers as may be reasonably necessary for the conduct of the Company's business.

Officers of the Company serving as of December 31, 2001, were as follows:

<u>Name</u>	<u>Position</u>
Joseph Edmond Taylor	President
Anthony Vandegrift Ciervo	Secretary and Vice President
Steven Michael Harris	Treasurer

Conflict of Interest

The Company has a procedure requiring all directors, officers, and key employees to sign an annual statement entitled "Prohibited Pecuniary Interest of Officials and Employees."

The Examiners' review of the conflict of interest questionnaires disclosed no reported conflicts.

Corporate Records

The minutes of the Board of Directors and stockholders for the period under examination were read.

The minutes of the various meetings indicate that meetings were well attended and held in accordance with the Bylaws.

The Company did not adopt any amendments to the Articles of Incorporation or Bylaws during the period under examination.

AFFILIATED COMPANIES

Anglesey Corporation, a Delaware insurance holding company, owned 100% of the Company's outstanding stock at December 31, 2001. The ultimate controlling person in the holding company system is Anthony Ciervo, Jr., who owned 4,605 shares or 53.39% of Anglesey Corporation Class A, no par common stock at December 31, 2001.

A consolidated federal income tax return is filed for Adriatic Insurance Company and its parent, Anglesey Corporation. The return is in the parent's name. There is no written agreement describing a method of allocating the federal income tax recoverable or payable. There should be a written agreement approved by the Board of Directors describing the method of allocation and the manner in which intercompany balances will be settled. The agreement should require that any intercompany balances would be settled within a reasonable time following the filing of the consolidated tax return. The agreement should comply with regulations promulgated by the IRS.

It is again recommended that the Company enter into a written tax allocation agreement with its parent, Anglesey Corporation, describing the tax allocation method between the two companies and providing for settlement of intercompany balances.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2001, the Company did not have insurance coverage protecting it from losses resulting from dishonest acts committed by any of the Company's employees. At December 31, 2001, the minimum amount of coverage suggested by NAIC guidelines was \$400,000. **It is recommended that the Company obtain insurance coverage protecting itself from losses resulting from dishonest acts committed by Company employees.**

The Company had in force insurance policies providing coverage for business personal property, general liability, loss of income, workers compensation, and employers liability.

PENSION, STOCK OWNERSHIP, AND OTHER INSURANCE PLANS

During the period under examination, the Company provided a health plan to employees and in 2001 the Company established a savings incentive match plan with deferred employee compensation and up to 3% matching.

STATUTORY DEPOSITS

Deposits held by or pledged to regulatory agencies at December 31, 2001, are as follows:

State	Type of Asset	Fair Value	Statement Value
Arkansas	Certificate of Deposit	\$ 250,000	\$ 250,000
Louisiana	Certificate of Deposit	100,000	100,000
New Mexico	Treasury Bill	347,464	347,464
Oklahoma	Certificate of Deposit	100,000	100,000
South Carolina	Certificate of Deposit	200,000	200,000
North Dakota	Certificate of Deposit	2,500,000	2,500,000
New York	Certificate of Deposit	2,561,000	2,561,000

The deposits held by the States of North Dakota and New York are for the benefit of all policyholders, claimants, and creditors of the Company.

GROWTH OF THE COMPANY

Amounts reflected below were taken from annual statements with the exception of years 1996 and 2001. Financial examination reports were used for those years.

	Net Premiums Written	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
December 31, 1996	\$ 9,336,338	\$ 27,368,974	\$6,950,898	\$20,418,076	\$1,444,111
December 31, 1997	8,816,914	28,819,324	6,942,539	21,876,785	1,457,140
December 31, 1998	7,505,749	28,990,821	6,303,064	22,687,757	809,256
December 31, 1999	6,357,005	30,160,077	6,350,765	23,809,312	1,121,507
December 31, 2000	11,784,751	35,374,143	10,439,640	24,934,503	1,125,781
December 31, 2001	21,770,654	44,476,368	17,808,535	26,667,833	1,733,920

TERRITORY AND PLAN OF OPERATION

The Company is licensed in the states of North Dakota, Delaware, Nevada, and New Mexico but writes no business in those states. It operates in the District of Columbia and 24 states on an excess and surplus lines basis.

The Company writes fire, homeowners, inland marine, auto physical damage, and other liability - occurrence lines of business.

The Company specializes in writing automobile physical damage coverage for commercial vehicles, including local and long-haul trucking, taxicabs, and special automobile risks.

At December 31, 2001, the Company had 50 agents or agencies.

REINSURANCE

The Company ceded reinsurance premiums totaling \$5,121,948, during 2001. Except for facultative premiums of \$40,000 and \$276,000 ceded under a 100% treaty, all of the 2001 reinsurance premiums were ceded to off-shore unauthorized reinsurers. As of December 31, 2001, loss, loss adjustment expense, and unearned premium reinsurance credits from unauthorized reinsurers totaled \$2,919,000 and funds held by the Company under reinsurance treaties totaled \$3,751,000.

At December 31, 2001, the Company had the following principal reinsurance treaty in force:

Ceded Reinsurance

Type: **Multiple Line Excess of Loss**

Reinsurer: Aquitaine Insurance Company

Scope: Property business shall mean Automobile Bodily Injury and Property Damage Liability, Personal Injury Protection, Bodily Injury Other than Automobile, Property Damage Other than Auto, Employer's Liability, Fire, Allied Lines, Commercial Multiple, Marine Hull, Marine Liability, Inland Marine, Commercial Automobile Physical Damage, Burglary-Theft Private Passenger Automobile, Mobile Homeowners, Building Contents Liability, Catastrophe Cover covering all lines written.

Coverage:

Class of Business	Company Retention	Reinsurer's Limit	Comments
Auto Bodily Injury and Property Damage Liability	\$25,000	\$50,000	Per Occurrence
Personal Injury Protection	\$25,000	\$50,000	Per Occurrence
Bodily Injury Protection, Other than Auto	\$25,000	\$50,000	Per Occurrence
Property Damage, Other than Auto	\$30,000	\$55,000	Per Occurrence
Employer's Liability	\$25,000	\$50,000	Per Occurrence
Commercial General Liability	\$50,000	\$250,000	Per Occurrence
Fire	\$30,000	\$55,000	Per Risk
Allied Lines	\$30,000	\$55,000	Per Risk
Commercial Multi-Peril	\$30,000	\$60,000	Per Risk
Marine Hull	\$30,000	\$60,000	Per Risk
Marine Liability	\$30,000	\$60,000	Per Risk
Inland Marine	\$35,000	\$75,000	Per Risk
Mobile Homeowners	\$30,000	\$65,000	Per Risk
Building Contents Liability	\$30,000	\$60,000	Per Risk
Commercial Auto Physical Damage	\$30,000	\$55,000	Per Risk
Burglary- Theft	\$30,000	\$55,000	Per Risk
Private Passenger Auto Physical Damage	\$12,000	\$50,000	Per Risk

Catastrophe Cover: All lines 100% of \$1,000,000 excess of \$150,000 per occurrence not to exceed \$1,200,000 aggregate per risk. Additionally, reinsurer shall be liable for 100% of the amount by which the Company's net losses incurred during each calendar year exceed 120% of Company's net earned premium.

Premium: 18% of Company's written premium.

Commissions: 32% of ceded reinsurance premium.

Effective Date: May 1, 1992

Termination: Either party may cancel by providing not less than 90 days written notice.

The reinsurance agreements contain the insolvency clause required by N.D. Cent. Code ' 26.1-02-21.

The agreement with Aquitaine Insurance Company does not contain the "Entire Contract" clause as required by SSAP No. 62, paragraph 8c. **It is recommended that the Company add the "Entire Contract" clause to its reinsurance agreements.**

ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination and its trial balance of the general ledger for the year 2001 was traced to the statutory annual statement.

The Company is audited annually by the independent certified public accountant firm of Jeanne S. Duhe. The work papers of this CPA were made available to the Examiners and were used to the extent deemed appropriate for this examination.

The following items relating to the Company's preparation of its Annual Statement were noted during this examination:

Notes to Financial Statement – the Notes to Financial Statements to the 2001 Annual Statement did not contain all of the information required by *NAIC Annual Statement Instructions*. **It is recommended the Company complete the Notes to Financial Statements in accordance with NAIC Annual Statement Instructions.**

Schedule T – The Company allocates premium income by state in Schedule T using the location of the surplus lines agent or broker rather than the location of the risk. The Company's method significantly impacts the allocation of premiums because many instances were noted where the location of the agent or broker differed from the location of the risk. **It is recommended that the Company allocate premiums by state in Schedule T using the location of the risk rather than the location of the surplus lines agent or broker.**

It is also recommend that the Company provide a detailed explanation of the basis used to allocate premiums when completing the "Explanation of Basis of Allocation of Premiums by States, etc." located at the bottom of Schedule T.

Taxes, Licenses and Fees Payable – Filing fees payable were incorrectly classified as Other Expenses on line 5, page 3 of the annual statement. **It is again recommended that the Company report filing fees payable as Taxes, Licenses and Fees payable on line 6, page 3 in conformity with the Annual Statement instructions.**

FINANCIAL STATEMENTS

The financial statements of the Company are presented on the following pages in the sequence listed below:

Statement of Assets, Liabilities, Surplus and Other Funds, December 31, 2001
Underwriting and Investment Exhibit, Year 2001
Reconciliation of Capital and Surplus, January 1, 1997 through December 31, 2001
Analysis of Examination Changes

Adriatic Insurance Company
Statement of Assets, Liabilities, Surplus, and Other Funds
as of December 31, 2001

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$102,097		\$102,097
Mortgage Loans on Real Estate	99,198		99,198
Cash	17,463,817		17,463,817
Short-Term Investments	22,463,175		22,463,175
Premiums and Agents' Balances in Course of Collection	3,895,048		3,895,048
Reinsurance Recoverables on Loss and Loss Adjustment Expense Payments	292,000		292,000
Interest, Dividends, and Real Estate Income Due and Accrued	151,332		151,332
Intercompany Tax Sharing Receivable	9,701		9,701
TOTALS	<u>\$44,476,368</u>		<u>\$44,476,368</u>

Adriatic Insurance Company
Statement of Assets, Liabilities, Surplus, and Other Funds
as of December 31, 2001

Losses		\$ 6,757,912
Loss Adjustment Expenses		428,000
Other Expenses		300,186
Taxes, Licenses, and Fees		4,305
Unearned Premiums		6,537,492
Funds Held By Company Under Reinsurance Treaties		3,750,796
Amounts Withheld or Retained by Company for Account of Others		29,844
		<hr/>
Total Liabilities		\$ 17,808,535
Common Capital Stock	\$ 3,500,000	
Gross Paid In and Contributed Surplus	1,100,042	
Unassigned Funds (Surplus)	22,067,791	
	<hr/>	
Surplus as Regards Policyholders		26,667,833
		<hr/>
Total		\$44,476,368
		<hr/>

**Adriatic Insurance Company
Underwriting and Investment Exhibit
for the Year Ended December 31, 2001**

UNDERWRITING INCOME

Premiums Earned		\$19,729,434
Deductions:		
Losses Incurred	\$12,097,942	
Loss Expenses Incurred	1,137,906	
Other Underwriting Expenses Incurred	4,658,518	
Total Underwriting Deductions		17,894,366
Net Underwriting Gain or (Loss)		\$ 1,835,068

INVESTMENT INCOME

Net Investment Income Earned	\$1,537,071	
Net Realized Capital Gains or Losses	0	
Net Investment Gain or (Loss)		1,537,071

OTHER INCOME

Total Other Income		(44,880)
Net Income Before Federal Income Taxes		\$3,327,259
Federal Income Taxes Incurred		1,593,339
Net Income		\$1,733,920

Adriatic Insurance Company
Reconciliation of Capital and Surplus Accounts
January 1, 1997, Through December 31, 2001

	Year Ended December 31				
	2001	2000	1999	1998	1997
Capital and Surplus, December 31, Previous Year	\$24,934,503	\$23,809,312	\$22,687,757	\$21,876,785	\$20,418,076
Net Income	\$1,733,920	\$1,125,781	\$1,121,507	\$809,256	\$1,457,140
Net Unrealized Capital Gains or (Losses)	(590)	(590)	48	1,716	1,569
Net Change in Capital and Surplus for the Year	\$1,733,330	\$1,125,191	\$1,121,555	\$810,972	\$1,458,709
Capital and Surplus, December 31, Current Year	\$26,667,833	\$24,934,503	\$23,809,312	\$22,687,757	\$21,876,785

Adriatic Insurance Company
Analysis of Examination Changes
December 31, 2001

Description	Annual Statement	Per Examination	Surplus Change	
			Increase	Decrease
<u>Assets:</u>				
Cash	\$ 10,659,590	\$ 17,463,817	\$ 6,804,227	
Short-term Investments	29,267,402	22,463,175		\$ (6,804,227)
Reinsurance Recovable on Loss and Loss Adjustment Expense Payments	468,626	292,000		(176,626)
Federal Income Tax Recoverable	9,701			(9,701)
Intercompany Tax Sharing Receivable		9,701	9,701	
<u>Liabilities:</u>				
Losses	6,934,538	6,757,912	176,626	
Other Expenses	304,361	300,186	4,175	
Taxes, Licenses and Fees	130	4,305		(4,175)
Unearned Premiums	5,870,492	6,537,492		(667,000)
Total Examination Changes			<u>\$ 6,994,729</u>	<u>\$ (7,661,729)</u>
Capital and Surplus Per Annual Statement		\$ 27,334,833		
Capital and Surplus Per Examination		<u>26,667,833</u>		
Decrease Per Examination		<u>\$ 667,000</u>		

NOTES TO FINANCIAL STATEMENTS

Financial statement balances at December 31, 2001, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

Cash

The Company included a \$1.5 million issue of commercial paper in Schedule E of its 2001 Annual Statement. **It is recommended that the Company classify commercial paper as a short-term investment rather than as cash in accordance with SSAP No. 2, paragraph 10.**

Short-Term Investments

The Examiners reclassified eight money market funds with a book and carrying value of \$8,304,227 as cash equivalents rather than as short-term investments. **It is recommended that the Company report money market funds as cash under Schedule E unless those funds are eligible for reporting under Schedule D, Part 1, or Schedule DA, Part 1.**

Agents' Balances

The Company did not determine nonadmitted agents balances on a policy-by-policy basis as required by SSAP No. 6, paragraph 9. In the opinion of the Examiners the nonadmitted amount would not be material; therefore, no attempt was made to determine the nonadmitted amount as of December 31, 2001. **It is recommended that the Company determine nonadmitted agents balances over 90 days due on a policy-by-policy basis as required by SSAP No. 6, paragraph 9.**

Reinsurance Recoverable on Paid Losses

The Company did not maintain a detailed listing specifically identifying the items and amounts comprising the asset "Reinsurance Recoverables on Loss and Loss Adjustment Expense Payments". Review by the Examiners determined that the Company overstated reinsurance recoverable on loss and loss adjustment expense payments by \$176,626 and understated reinsurance recoverable on unpaid losses by \$176,626. **It is recommended that the Company add a column for Reinsurance Recoverable on Paid Losses to its reinsurance recoverable report so that the items and amounts comprising that balance can be easily identified.**

The Company uses the reinsurer billing date to start the aging of Reinsurance Recoverable on Paid Losses and Paid Loss Adjustment Expenses reported on Schedule F – Part 4. **It is recommended that the Company use the date it records the loss payment in its accounts rather than the reinsurer billing date to start aging Reinsurance Recoverable on Paid Losses and Paid Loss Adjustment Expenses reported on Schedule F – Part 4.**

Federal Income Taxes Recoverable

The Company did not compute deferred tax assets or deferred tax liabilities for the period ending December 31, 2001. **It is recommended that the Company compute deferred tax assets and liabilities on an annual basis as required by SSAP No. 10.**

It is recommended that the Company classify federal income tax receivables from its parent as a separate line item under the caption "Aggregate Write-Ins for Other Than Invested Assets" on line 24, page 2 of the Annual Statement, until such time as a tax allocation agreement is executed which meets the conditions of the *Annual Statement Instructions* for line 15, page 2.

Losses and Loss Adjustment Expenses

This examination projected the Company's reserves for gross and net unpaid losses using paid loss development, incurred loss development, and Bornhuetter/Ferguson estimation methods. Development factors were based on a review of the Company's development data. Unallocated loss adjustment expense reserves were projected using percentage relationships of loss reserves. This examination determined that the gross and net loss and loss adjustment expense reserves were adequate.

Underlying data was tested by the Examiners with no differences noted.

Taxes, Licenses and Fees Payable

The Company incorrectly classified filing fees payable of \$4,175 as Other Expenses on line 5, page 3 of the annual statement. **It is recommended that the Company report the payable on line 6, page 3 in conformity with the Annual Statement instructions.**

Unearned Premiums

The Examiners determined that unearned premiums involving business written by one agency were understated by \$667,000 due to clerical error.

The Company requires some insureds to pay an initial or deposit premium which generally exceeds the regular monthly premium by percentages varying from 50% to 100%. The Company recognizes the entire deposit premium into the statement of income as earned premium in the first month in which the premium is recorded which results, on a policy by policy basis, in either an overstatement or understatement of earned premiums. **It is recommended that the Company develop procedures to monitor the overall effect of deposit premiums and to adjust earned and unearned premiums for any material misstatement.**

CONCLUSION

The financial condition of the Company as of December 31, 2001, as determined by this examination is summarized as follows:

Admitted Assets		<u>\$44,476,368</u>
Total Liabilities	\$ 17,808,535	
Surplus as Regards Policyholders	<u>26,667,833</u>	
Liabilities, Surplus, and Other Funds		<u>\$44,476,368</u>

Since the last examination of the Company conducted as of December 31, 1996, the Company's admitted assets have increased \$17,107,394, its total liabilities have increased \$10,857,637, and its surplus as regards policyholders has increased \$6,249,757.

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Rhoda Sautner, CPA, Carole Kessel, CPA and Chief Examiner, and Mike Andring, ACAS, of the North Dakota Insurance Department participated in this examination.

Respectfully submitted,

David Weiss, CFE
N.D. Insurance Department

COMMENTS AND RECOMMENDATIONS

It is again recommended that the Company enter into a written tax allocation agreement with its parent, Anglesey Corporation, describing the tax allocation method between the two companies and providing for settlement of intercompany balances.

It is recommended that the Company obtain insurance coverage protecting itself from losses resulting from dishonest acts committed by Company employees.

It is recommended that the Company add the "Entire Contract" clause to its reinsurance agreements

It is recommended the Company complete the Notes to Financial Statements in accordance with NAIC *Annual Statement Instructions*.

It is recommended that the Company allocate premiums in Schedule T using the location of the risk rather than the location of the surplus lines agent or broker. It is also recommend that the Company provide a detailed explanation of the basis used to allocate premiums when completing the "Explanation of Basis of Allocation of Premiums by States, etc." located at the bottom of Schedule T.

It is again recommended that the Company report filing fees payable as Taxes, Licenses and Fees payable on line 6, page 3 in conformity with the *Annual Statement instructions*.

It is recommended that the Company classify commercial paper as a short-term investment rather than as cash in accordance with SSAP No 2, paragraph 10.

It is recommended that the Company report money market funds as cash under Schedule E unless those funds are eligible for reporting under Schedule D, Part 1, or Schedule DA, Part 1.

It is recommended that the Company determine nonadmitted agents balances over 90 days due on a policy-by-policy basis as required by SSAP No. 6, paragraph 9.

It is recommended that the Company add a column for Reinsurance Recoverable on Paid Losses to its reinsurance recoverable report.

It is recommended that the Company use the date it records the loss payment in its accounts rather than the reinsurer billing date to start aging Reinsurance Recoverable on Paid Losses and Loss Adjustment Expenses.

It is recommended that the Company compute deferred tax assets and liabilities on an annual basis as required by SSAP No. 10.

It is recommended that the Company classify federal income tax receivables from its parent as a separate line item under the caption "Aggregate Write-Ins for Other Than Invested Assets" on line 24, page 2 of the Annual Statement, until such time as a tax allocation agreement is executed which meets the conditions of the *Annual Statement Instructions* for line 15, page 2.

It is recommended that the Company develop procedures to monitor the overall effect of deposit premiums and to adjust earned and unearned premiums for any material misstatement.